

The following is a PowerPoint presentation delivered by Ms. Heather Arnold of Retail Compass, LLC to the Falls Church Economic Development Authority Board of Directors on July 10, 2007. Accompanying each slide are notes that summarize Ms. Arnold's spoken comments, taken from a transcript of the meeting.

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	<h1>The City's Retail Future</h1> <p><i>Industry Trends, Opportunities and Challenges in Falls Church</i></p> <p><b>July 10, 2007</b></p> <p>Prepared for the Economic Development Office By Retail Compass LLC</p>

## Taking a Retail Snapshot

1. Review of Retail Market Study
2. Retail Potential for City Center
3. What's Been Happening Since
4. Challenges That Still Exist
5. What Will Retail Success Look Like?
6. Falls Church Retail 2027

- Retail Compass completed a study of the city's retail market in late 2005. The study is available on the city's website ([www.fallschurchva.gov/government/eda/documents/RetailStudy120705.pdf](http://www.fallschurchva.gov/government/eda/documents/RetailStudy120705.pdf)) .
- The purpose of the study was to:
  - ☐ Better understand what retail exists in the city;
  - ☐ Estimate what the unmet retail potential is for the city; and
  - ☐ Serve as a guide for future development, including a City Center.
- With this information it should be possible to have a more realistic vision for retail in Falls Church over the next 5, 10 and 20 years.
- This slide outlines the six topics covered in the presentation by Ms. Arnold.

## What's Keeping Retailers Away?

- Lack of quality space and parking
- National tenants protect nearby locations.
- Local tenants can't find locations in concentrated retail centers or near anchors
- Inhospitable retail conditions along Route 7.

- Communities take the decisions of retailers about whether or not to come into their city very personally. If Ann Taylor decides to come to your community, you think "I am cool," I am fashionable," "I have my act together," "I make a lot of money," because the retailer is validating that for you. If they don't come, you think just the opposite when, in fact, Ann Taylor is not assessing a location based on you. They're doing it based on the market.

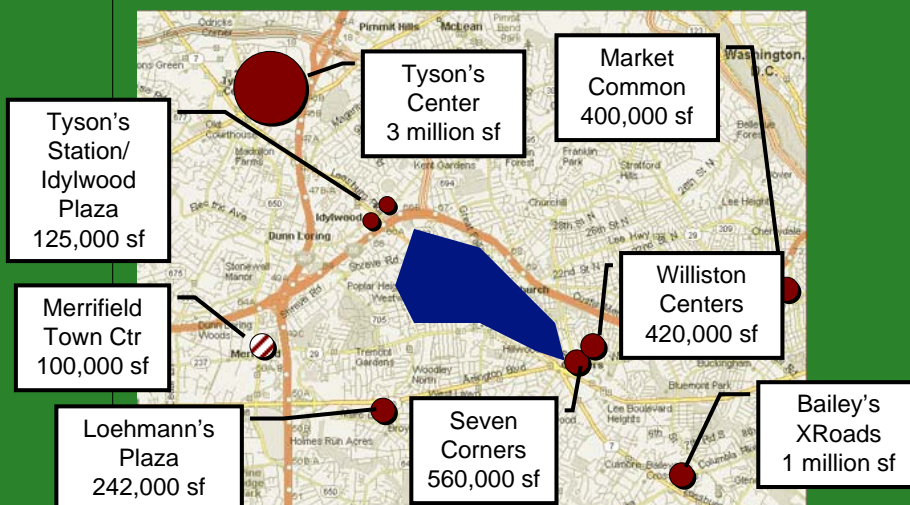
- The 2005 retail market study of Falls Church identified reasons why retailers have stayed away from the city. A big reason identified was lack of quality retail space, particularly as it relates to parking. While some retail spaces are good, their parking situations are not. Conversely, some retail has plenty of parking but poor visibility or the store is hard to access. Sometimes it is on the wrong side of Broad Street. There is a "PM rush hour" side of Broad Street and an "AM rush hour" side of the street and in Falls Church that makes a big difference.

- Some national tenants don't want to come to Falls Church because they are protecting nearby locations that are already established, especially at Tysons Corner. Retailers do not want to cannibalize their own stores at existing locations. If a retailer already has a store at Tysons, chances are that they will not consider a location in Falls Church because they think that's close enough for shoppers here to use that store. Also, if they put another store in Falls Church they wouldn't attract enough business. The business that might be attracted would hurt their existing establishment in Tysons.

### Continuation for Slide 3

- Another reason that retailers have chosen not to come to Falls Church is that they can't find locations in concentrated retail areas. Retail in the city is widely disbursed for the most part, with some notable exceptions. The West Falls Plaza with the Giant food store is a prime retail location with very low vacancy, owned and operated by Federal Realty, indisputably one of the finest retail developers in the country.
- A second prime retail location in Falls Church is the Broaddale Shopping Center. Its parking is up front with no competition for parking from users outside the shopping center. It has great visibility, access, and it is a very sought-after location. It shouldn't be any surprise that West Falls Plaza and Broaddale Shopping Center are where the city's two Starbucks are located.
- Also identified in the 2005 retail study of the city was that Route 7 (Broad Street) presents inhospitable conditions for retailers. Traffic volume is heavy and traffic speed tends to be high. It makes it difficult for pedestrians to cross Route 7. A retailer on one side cannot count on attracting customers from the other side.

## Your Place in the Retail Market

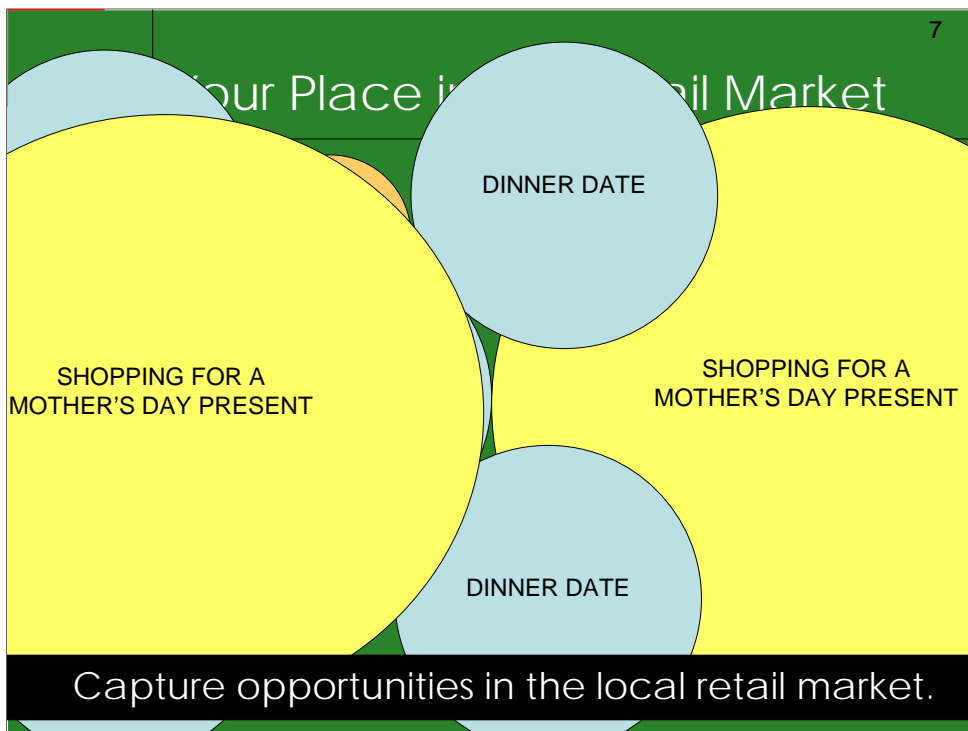


Falls Church is an "in-between" retail location.

- This slide shows eight retail centers in locations that surround Falls Church. Ranging in size from Merrifield's emerging town center with 100,000 square feet to Tysons Corner with over 3 million square feet. Each of these retail centers has its own defined trade area and each considers Falls Church part of its market. Most retailers in these centers consider Falls Church already served. Retailers do not look at jurisdictional boundaries in assessing their trade areas. The city boundaries of Falls Church are irrelevant to them.



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- Ms. Arnold stated that retail can be explained in three major categories of shopper mindsets:

- ☐ Running Saturday errands (basic goods and services);
- ☐ Going out on a dinner date; and
- ☐ Shopping for a Mother's Day present (shoppers' goods).

- Shoppers looking for a special gift are more willing to travel a greater distance than those running Saturday errands and those going out for a dinner date are inclined to travel a distance that falls somewhere in between. This shopping behavior is represented by the relative size of the circles on the slide.

- From the retailers' perspective, the market in any given area can support numerous "running Saturday errands centers" like West Falls Plaza or Broaddale Shopping Center. In terms of "dinner date" destinations, fewer (but more than one) can be supported in a market like Falls Church. However, centers that offer "shoppers' goods" require a large trade area for customer support, so far fewer exist. One of the nation's largest shopping centers is Tysons Corner. The retail potential of Falls Church is greatly influenced by its close proximity to Tysons.

## Falls Church Retail Potential



- The retail market strategy that followed the market analysis in 2005 aims to take advantage of the conclusion that Falls Church can support many more restaurants and cafes.
- Another opportunity for the city to pursue is home décor and home improvement stores. The market analysis showed “off the chart” spending in these categories and the presence of numerous stores scattered around the city. A strategy to cluster these stores more densely in one location could create new opportunities for furniture stores, bathroom fixture stores, and the like. Such a strategy could also create an identity for Falls Church in the trade area as the place you go when you are redesigning your home – “almost like a Merchandise Mart, but on a neighborhood scale.”
- This slide shows the estimates, in square footage of retail space, of the city’s market potential for additional “dining out” businesses (44,350 square feet), “basic needs” (21,500 sf) and “shoppers’ goods” (23,500 sf).

## Factors That Increase Demand



A Specialty Grocery Store



Theater/Cinema/Music



FC-authentic environment

- This slide illustrates three major factors that could generate more demand for retail in Falls Church:

- ❑ The presence of a specialty grocery store. (An August 13, 2007 Washington Post article, “*Affluent Growth Via a Gourmet Market: Developers Court Upscale Grocers to Draw High-Income Customers in Virginia,*” underscores the drawing power of these stores as anchors for retail leasing.);
- ❑ Entertainment venues such as theater, cinema and music performance; and
- ❑ Creation of a City Center-type environment as a new focal point for retail activity.

## Appropriate Retail at City Center



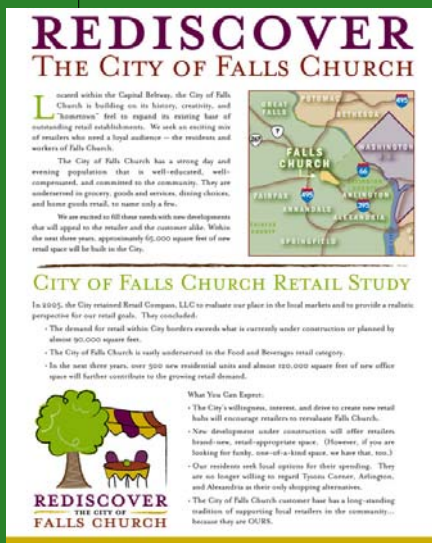
CITY  
CENTER



- This slide reiterates and expands on the retail consultant's conclusion that Falls Church and the proposed City Center project (especially in a compact environment), can support:

- ☐ A collection of restaurants and cafes;
- ☐ A specialty grocery store and basic goods and services businesses; and
- ☐ A cluster of home décor and home improvement stores.

## What's Been Happening:



- ❑ Distributed 600 retail brochures
- ❑ Contacted 159 targeted retailers
- ❑ Met and/or Toured 9 potential tenants
- ❑ Attended DC ICSC and ULI conferences

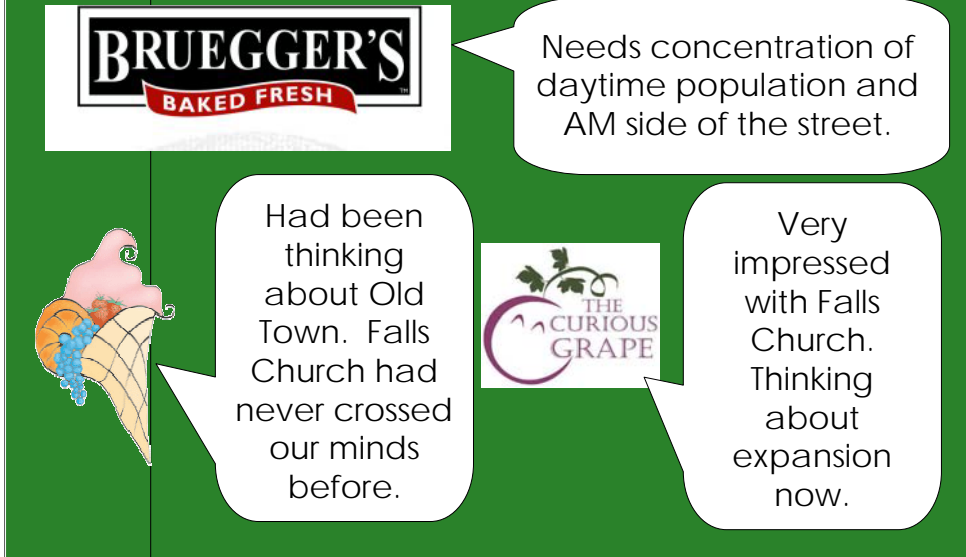
- Beginning in late 2006, the city has undertaken a campaign to reintroduce itself to commercial real estate brokers and the retail industry by creating a simple, attractive package of information about Falls Church to increase awareness of development activity that has led to the creation of available new retail space in the city.
- The “Rediscover the City of Falls Church” brochure, with demographics, traffic counts, adjacent retailers, and other information that a retailer would consider in a site selection decision, has been distributed to brokers, landlords and more than 150 targeted retail or restaurant tenants.
- Prospects were identified and contacted based on their potential fit with the consumer/demographic profile of Falls Church.
- The effort was also designed to focus especially on successful regional and local retailers which were considering expansion – prospects not typically targeted by brokers that routinely pursue national retailers.
- The results of the ongoing effort have been meetings or tours with nine potential tenants and a great deal of valuable feedback from many others.
- City staff has also been busy attending regional events that bring them in contact with brokers, retailers and other players in the industry.

## What We're Hearing:

- ☐ Not interested.
- ☐ Not expanding at the moment.
- ☐ Targeting major markets.
- ☐ Too close to Tyson's.
- ☐ Not enough similar co-tenancy.
- ☐ Need surface parking up front.
- ☐ Need frontage, preferably corner.

- The feedback from retailers targeted by the city's recruitment campaign has provided extremely valuable insight about the decision making process for site selection, current perceptions in the industry about Falls Church, and factors that the city will need to address in order to better position itself to attract the type of retail that it desires and can support.
- This slide identifies seven main reasons given by retailers who have responded as to why they are **not** interested in a Falls Church location.
- It is important to note that some retailers have indicated that they are not interested *at this time*, implying that there is the possibility of an expansion opportunity in the future. In many cases they have also indicated that they had not been aware of opportunities in Falls Church and appreciated the city's package of information.
- Ms. Arnold pointed out how important it is to "get on the radar screen" of those making site location decisions in the retail industry. She also spoke about the instinct that retailers have to follow rather than lead when it comes to choosing new locations. She expressed the importance of working to develop a critical mass of retailers that other businesses would find attractive as co-tenants.
- Ms. Arnold went into some detail about the strong preference of retailers to seek space that provides street frontage, or exposure at prominent locations, especially busy corners. Under existing conditions in Falls Church, she explained, retailers are still most interested in space not only with good visual exposure, but also with surface parking in front.

## What's We're Hearing:



- Three specific examples of retailer feedback regarding Falls Church as a site location were provided, based on staff's experience.
- Bruegger's (bagel shop) stated that they needed to have a location with a strong day (office) population and that they needed to be on the "AM side of the street."
- Café Gelato said that they had been looking elsewhere in the region, but that Falls Church, which had not been a consideration, would now be among the sites that they will take a look at.
- The Curious Grape, a wine store, responded that it was thinking about expansion; that it appreciated the information from the city, and that it would consider Falls Church as a possible location.
- Ms. Arnold also made the point that many retailers have expressed a very favorable reaction to the Falls Church recruitment effort, even if they are not interested in locating in the city. A number of retailers have complimented staff for their initiative and have said they've never heard of a city taking such a proactive approach and that "this is great information to have."



- The timeline for site location decision making was described as a long and elaborate process. It begins with lease negotiations between a retailer and landlord even before construction of new space begins.
- National retailers have a routine system for seeking out and settling on new site locations. However, the regional and local retailers that the city is targeting usually do not have this capacity.
- This is why the city's effort to provide directly to a retailer the type of site selection data that a broker would gather on behalf of a national retailer is critical to the city's potential success in attracting targeted retailers.
- The city's recruitment campaign also serves to inform developers who are still making decisions about the final form of the retail space they are building to understand, perhaps very specifically, the opportunities that exist from retailers with expressed space specifications.

## Challenges Still Exist:

- ☐ Community's expectations for new retail are still unrealistic.
- ☐ Developers are still promising tenants they won't be able to deliver.
- ☐ Planners encourage retail design that does not mesh with space demands for this market.
- ☐ Developers are asking retail rents that push market-appropriate rates.

- The early portions of the presentation explained why Brooks Brothers, Chico's and Nine West are not likely to come to town.
- Developers who promise to deliver these types of national tenants in Falls Church must be challenged to:
  - ☐ Describe their back-up plan for retail recruitment; and
  - ☐ Explain also how they intend to pursue local and regional tenants.
- City expectations for the design of retail space by developers needs to be more flexible. Retailers are having a difficult time envisioning Fall Church as a structured parking environment, yet new projects are producing retail space served primarily by parking in structures. More recently approved mixed use projects in the city have been more design-conscious in terms of retail visibility and parking convenience.
- Asking prices for rent in some of the new Falls Church retail space is considerably higher than market-appropriate rates. Landlords who control this space must adjust their rents based upon pricing appropriate for corner locations versus in-line space, etc.

## Challenges Still Exist:



- This slide illustrates the difference in asking prices for retail space in new mixed use projects in Falls Church compared to asking prices for retail space just outside the city.

## Challenges Still Exist:



- Major tenants signed

- Second prominent location unleased.



- The signing of Cosi to a lease at the Byron was a huge coup for Falls Church.
- The signing of Penzey's Gourmet Spices is also highly significant and positive for the city.
- Successes of this nature should be celebrated.
- Leasing of remaining space in the building may, in part, be a function of smoothing out the operation of the surface parking lot intended as customer parking. More effective on-site, self-enforcement of the parking is probably necessary.
- Ms. Arnold expressed confidence that the remaining space in the Byron will be filled before long due to the strength (pull) of the existing retail anchors.

## Challenges Still Exist:



- Construction underway.

- Prominent location still unleased.



- With construction nearing completion the retail space in the Spectrum is becoming visible to prospective tenants. The prime corner (entrance) location is under negotiation for lease, as are some other retail spaces in the building.
- The quality of the space is excellent. While some retailers will “come and go” over the next five years in the building, space is being built that will continue to attract quality tenants.

## Challenges Still Exist:



- Difficult location.



- Difficult co-tenancy.

- At present the location is a difficult one for retail. Ms. Arnold suggested that there may be an expectation that the office component will carry the retail. Opportunities will exist for lunch-hour businesses, but establishing a shopping environment will be challenging.
- Nearby land uses do not complement upscale retail, but the construction of the first phases of City Center only one block away would have a positive effect in the future.
- A general observation by Ms. Arnold regarding the mixed use projects in the city with ground level retail space was that the new Falls Church retail environment is still very much in its infancy. Building the right kind of retail space will pay off for the city in the long run as Falls Church creates a better overall environment for retail, a critical mass of activity, and draws broader attention in the industry. Ms. Arnold commented that the city is on the right track in terms of the high quality of retail space being delivered by developers in the new projects.

# Risk of Doing Nothing

**Commercial Real Estate Week**  
Page 12 News Digest Industry Notes 13 Delta Market Trends 14 July 6-12, 2007

## Survey: town centers show staying power in region

By Prabha Natarajan  
Staff reporter

New town centers have been developed across the region in recent years, creating urbanlike enclaves in suburban spots from Rockville to Reston, but developers looking ahead wonder: Are town centers here to stay or are they a fad that will fade away?

Researchers at Bethesda-based real estate advisers Robert Charles Lesser & Co. spent the better part of this spring calling and questioning folks throughout the country about town centers and mixed-use developments.

"Mixed use or walkability in a community are no longer options, and consumers overwhelmingly are demanding it," said Shyam Kannan, research director and vice president at RCLCO.

In one key finding, the surveys showed that 51 percent of existing single-family homeowners want to buy their next house in communities different from their current, low-density suburban homes.

This marks the first time since suburbs and single-family homes took over the American landscape that people have changed their preference, according to researchers.

"It is an important statistic," Kannan said. "To live in a home in a nice suburb is the American dream. Now, you are seeing a shift, which will get more pronounced as

development to take place around the region's 42 Metro stations, adding to the number communities linked to transit.

Most of the existing parking lots and areas around the Metro stations are already marked for development through a sale or long-term lease agreement with the Washington Metropolitan Area Transit Authority.

All this, of course, doesn't mean there is no room for suburban, master-planned communities. The trick is for home builders to package them as, say, communities with amenities and access to arterial roads and transit options.

"Please ditch live, work, play," Kannan cautioned. "What is going to appeal is creating an appropriate customer experience like an Apple store for homebuyers."

Toll Bros. Inc., a Horsham, Pa.-based home builder, says the most popular products in its portfolio are the mid- and high-rise developments it is building in Hoboken, N.J., and the boroughs of New York.

In the rest of the country, the developer is betting on good locations — in a good school district, with better commutes — and not commodity land to sell when the market returns, said Frederick Cooper, senior vice president of finance and investor relations at Toll Bros., in a conference call with investors this month.

Kannan expects much of the future de-

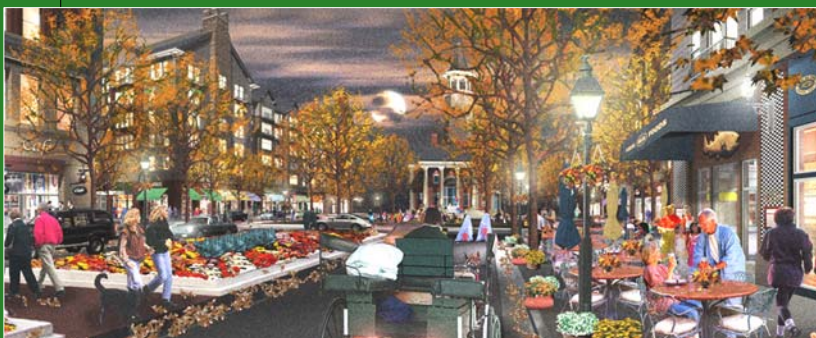
**Suburban urban**  
Many people now want to combine suburban and urban lifestyles, as illustrated by the percentage of homebuyers citing a strong preference for these attributes.

Narrower streets	37.1%
Smaller lots	27.6%
Mixed use	23.8%
Smaller houses	23.2%
Connected street work	23.2%
Through traffic	20.5%
Density	18.9%

SOURCE: JLLC PHOTO: GARY SHAPIRO/ISTOCK PHOTO

- The Washington Business Journal article speaks to the sustainability of town center projects, their popularity, and their compatibility with demographic trends.
- Other communities in the region like Rockville and Merrifield have moved ahead with town center projects since the time that Falls Church made the planning decision in 2001 to create a City Center. Ms. Arnold suggested that the city move forward quickly to begin building its City Center and to take advantage of its tremendous multi-market potential.

## Opportunity of Doing Something



*The perfect is the  
enemy of the good.*

-Voltaire

- Ms. Arnold stressed that Falls Church has the opportunity with a City Center to do something unique, lively and interesting – “something people would drive past Tysons or Market Commons to come check out because it’s unusual.”
- She used the quote by Voltaire, “The perfect is the enemy of the good,” to make the point that the city must reach a point where it can say it is close enough to its goals for a City Center that it can move forward and make it work.



- Ms. Arnold spoke about categories of retail that would be ideal for Falls Church City Center and comparable locations with new space in the city.
- Unique restaurants with one or two successful locations already in the region should be targeted.



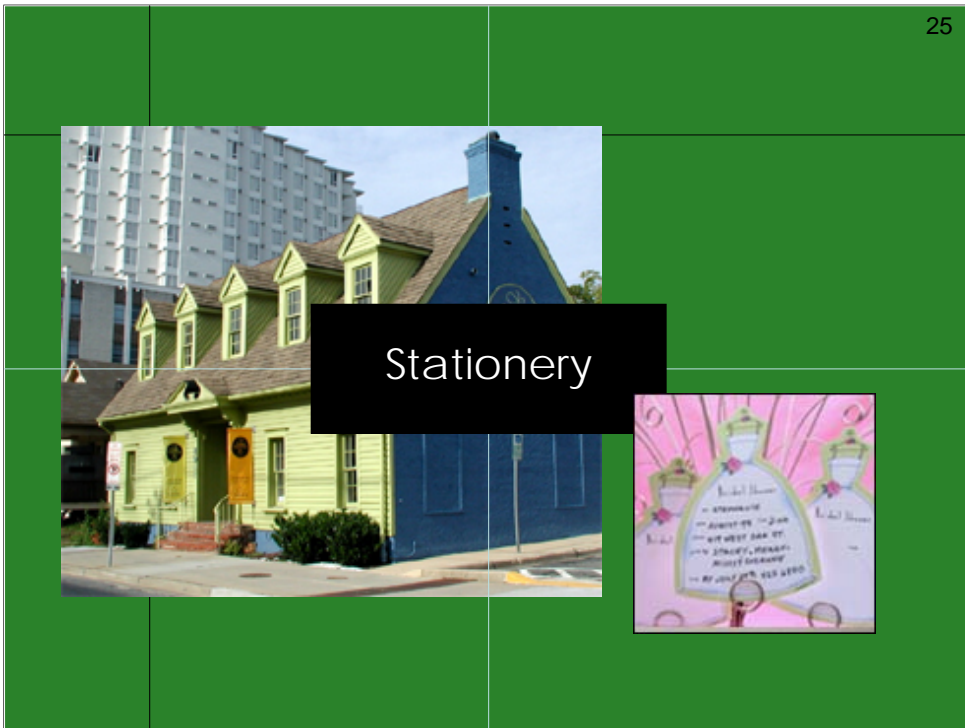
- Upscale salons would be a good fit.



## Children's Retail



- Children's retail would be a big draw for shoppers from outside the city.



- Stationery stores that provide a full range of services (e.g., invitations for a simple birthday party to stationery for a wedding).



## Home Goods

- Home goods to meet the obvious demand in this category as explained earlier in the presentation. A “really wonderful” furniture store would be a perfect anchor for other stores in this category.



- Wine stores are interested in Falls Church and Falls Church wants wine stores.



& Everything  
Else

- Other categories that are good fits for Falls Church are gift stores, entertainment venues like a billiards hall, and a book store.

## What Does Retail Success Mean?



- For Falls Church, it does not mean pursuing the national retailers mentioned earlier that, for reasons explained, are not going to come to the city anyway. “We don’t want to go head-to-head with Tysons; we will not win,” Ms. Arnold stated.

## Redefining Success



- However, if the city redefines success as attracting the types of retail tenants described in this presentation, then the Falls Church retail environment could be a very exciting, interesting and vibrant place.

## Building a Retail Market



- “This is my ‘2027’ message to you,” Ms. Arnold told the EDA. “My goal is that by 2027 the problem that Falls Church has is what DuPont Circle is struggling with today – maintaining its identity as retailers are clamoring for space.”
- Falls Church should strive to build and nurture a retail climate that matures to a level where DuPont Circle now finds itself: A great retail center that has the enviable problem of trying to keep out tenants that are willing to pay top dollar rent, but which do not add value to the strong existing mix of businesses. This process will take time and the right planning decisions early on to create the physical environment necessary to make the retail strong and sustainable.

# The City's Retail Future

*Industry Trends,  
Opportunities and  
Challenges in Falls Church*

**July 10, 2007**

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